Social Security

International Update:

Recent Developments in Foreign Public and Private Pensions

October 2008

Europe

European Commission

The European Commission (EC) launched a new Web site in September 2008 for the Academic Network of European Disability Experts (ANED). ANED was established by the EC in December 2007 to provide pan-European academic and scientific support for the future development of the European Union Disability Action Plan and implementation of the United Nations Convention on the Rights of Persons with Disabilities.

ANED comprises a management team and advisors, national contacts in 30 European countries, and disability experts. The Web site contains information about the work of ANED; links to information on European countries; published reports on major disability themes, such as social protection, employment policy, disability law; and sources of cooperative research on disability data.

The ANED Web site is available at http://www.disability-europe.net.

Source: personal communication, ANED staff member, September 8, 2008; Academic Network of European Disability Experts, http://www.disability-europe.net, September 15, 2008.

Romania

On October 1, 2008, the Romanian government implemented three changes to its two-pillar pension system. Two of the changes affect the lump-sum distribution rules for the second pillar mandatory individual accounts and the third change raises first pillar public pension benefits. Members who become disabled can now request a lump-sum distribution of their contributions in the private pension system. Previously, the only option for disabled participants was drawing a pension based on their contributions. Another change to the second pillar allows survivors of a deceased participant to request a lump-sum distribution of the funds in the deceased person's account. Previously, the funds in the deceased's individual account were transferred to the individual accounts of eligible survivors, which excluded those without an individual account such as children or parents of the deceased.

The third change increases the first pillar public pension by 20 percent. The average monthly public pension rose from 581.30 new lei (US$230.53) to 697.50 new lei (US$276.61), equal to about half the average monthly wage in Romania. The government accelerated the increase, originally scheduled to go into effect on January 1, 2009, because of favorable economic conditions in Romania.

In January 2008, Romania introduced second pillar individual accounts that are mandatory for employees aged 35 or younger and voluntary for employees aged 36 to 45. Employees aged 46 and older remain in the public system. The second pillar pension is financed by diverting a portion of the public pension contributions into individual accounts. Public pension contributions are 9.5 percent of gross wages for employees and 20.5 percent to 30.5 percent of gross wages for employers, depending on the industry. Of this overall contribution, 2 percent of gross wages are diverted to the individual accounts of those enrolled in the second pillar. While the employer and employee contribution rates for both pillars will remain the same, the portion directed to individual accounts will increase by 0.5 percent each year until it reaches 6 percent in 2016. The Romanian Private Pension Supervisory Commission (CSSPP) regulates the 14 pension funds in the second pillar, which currently have 3.5 million participants.

Sources: *Social Security Programs Throughout the World: Europe 2008*; "CSSPP-NORM Romanian Contributors to Get Private Pension Contribution Back if Disabled," *Mediafax*, September 4, 2008; "Government to Increase Pensions as from October 1," *Rompres*, September 17, 2008.

The Americas

Chile

Beginning October 1, 2008, Chilean employers may offer their employees voluntary pension savings plans, known as *Ahorro Previsional Voluntario Colectivo* (APVC), as a supplement to their mandatory individual retirement accounts. APVC, part of the major pension reform law passed in March 2008, targets the middle class, which has very low rates of retirement savings. Tax incentives for other types of voluntary retirement savings accounts are geared toward higher income workers.

An APVC plan must be set up by agreement between an employer and an institution authorized to administer APVCs such as pension fund management companies, banks, insurance companies, mutual fund administrators, and investment fund administrators. APVC administrators may charge members a percentage of their account balance as an administrative fee.

Although employers are not required to provide an APVC plan to employees, once a plan is set up, it must be offered to all employees. Employers may also provide more than one APVC plan, but employees are not required to participate in any plan. Employers that choose to set up an APVC plan must contribute to all participants' accounts and the contributions must be the same percentage of earnings for all participants. Employer contributions are tax exempt. An APVC may operate only if 300 employees or 30 percent of all employees, whichever is less, enroll in their employer's APVC (or group of APVCs) plan.

Employee contributions are voluntary and the government provides an incentive for employees to participate in the form of an annual subsidy of 15 percent of the total amount employees save in all types of voluntary retirement savings accounts. The maximum subsidy is currently 219,000 pesos (US$407) per year. To be eligible for the subsidy, employees must be contributing regularly to a mandatory individual account and their voluntary retirement savings cannot exceed 10 times their contributions to a mandatory account per year. However, employees have to return the subsidy to the government if they withdraw funds from any of their voluntary savings accounts before retirement.

Sources: Ley Número 20.255; "Reforma Previsional: Estado Premiará con Bono Anual El Ahorro Previsional Voluntario," Asociación AFP, el 5 de agosto de 2008; Superintendencia de Pensiones, Circular Número 1534, el 8 de septiembre de 2008.

Asia and the Pacific

Taiwan

A new National Pension System, for individuals aged 25 to 65 not covered by a public pension system, began operating on October 1, 2008. The new system covers an estimated 3.5 million Taiwanese, including the unemployed, the self-employed, non-working spouses, students, and those who work for a company with less than 5 employees. In a related move, modifications to the Labor Insurance (LI) system, the nation's public retirement program for private-sector workers, are scheduled to take effect on January 1, 2009, making pensions available to more workers.

Under the new National Pension System:

- Monthly contributions in the first year equal 6.5 percent of the lowest grade of the basic wage, currently NT$17,280 (US$538). This rate will gradually rise to 12 percent by 2030.
- The government subsidizes at least 40 percent of the contribution and the entire amount for those who are disabled or from low-income households.
- Subsidies and other related system expenses are funded through the government budget, lottery profits, and a 1 percent increase in the business tax.
- Monthly inflation-adjusted pensions are provided at retirement.

Under the new rules effective in 2009, the LI system will:

- Begin offering workers currently in the program a choice between a monthly annuity and the existing lump-sum payment once they reach full retirement age. New labor force entrants will only be eligible to receive a monthly annuity. The accrued value of annuity payments will exceed the lump-sum amount in slightly more than 8 years.

- Increase the normal retirement age gradually from 60 years to 65 years. After 2018, the retirement age will increase one year every 2 years until it reaches 65 by 2030.
- Raise the overall contribution rate immediately from the current 6.5 percent to 7.5 percent of earnings and gradually increase the rate until it reaches 13 percent in 2027. Contributions will remain shared among the employer (70 percent), employee (20 percent), and government (10 percent).

Sources: "Lawmakers Pass Landmark Labor Pension Rules," *China Post*, July 18, 2008; personal communication, official in Taiwan Council of Labor Affairs, September 2008; "National Pension System to Begin Operation October 1," Central News Agency English News, September 29, 2008.

Reports and Studies

European Union

Eurostat, the European Union's (EU) statistical office reported in late August 2008 that the EU's rapidly aging population could lead to a pension crisis and an increased financial burden on the member states. Eurostat projects that deaths will outnumber births beginning in 2015. As a result, almost one-third of the population will be aged 65 or older by 2060, nearly double the current figure of about 17 percent. In 2060, the countries with the largest populations (the United Kingdom, France, Germany, Italy, and Spain) will have about 65 percent of the EU population. In these countries, the share of the population aged 65 and older is projected to range from 24.7 percent in the United Kingdom to 32.7 percent in Italy. Eurostat projects the average dependency ratio for the EU will increase from about 25 percent in 2008 to about 53 percent in 2060. Based on this projection, there would be fewer than two workers for every person receiving a pension benefit in 2060. The EU noted that while this projection does not account for possible immigration and fertility changes, it is nevertheless cause for alarm for the future provision of public pensions in the EU.

Sources: "Population Projections 2008-2060," *Europa*, August 26, 2008; "Population Report Sends Out Dire Warning on Pensions," *El Pais*, August 27, 2008; "Pension Crisis Looms as Over-65s Double by 2060," Euractiv.com, August 27, 2008; "EU Retiree Numbers Grow," *Global Pensions*, August 27, 2008; "One in Eight Europeans to Reach 80," IPE.com, August 27, 2008.

International Report

Complementary and Private Pensions throughout the World 2008, released in September 2008, provides a cross-national comparison of mandatory and voluntary private and supplementary pension systems in 58 countries. The country profiles contain details on laws, coverage, financing, investments, benefits, participants' pension rights, tax treatment, and regulatory and supervisory authorities. This new volume updates the 2003 edition and is produced by the International Social Security Association (ISSA), the Organization for Economic Cooperation and Development (OECD), and the International Organization of Pension Supervisors (IOPS). More information is available at http://www.issa.int.

International Update is a monthly publication of the Social Security Administration's (SSA's) Office of Retirement and Disability Policy. It reports on the latest developments in public and private pensions worldwide. The news summaries presented do not necessarily reflect the views of the SSA.

Editor: John Kearney.

Writers/researchers: Richard Chard, Barbara E. Kritzer, and David Rajnes.

Social Security Administration
Office of Retirement and Disability Policy
Office of Research, Evaluation, and Statistics
500 E Street, SW, 8th Floor
Washington, DC 20254

SSA Publication No. 13-11712